

# Utah Retirement Systems Overview

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**June 24, 2015**

The Office of Legislative Research and General Counsel

# Five Key Retirement System Indicators

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- **Funded Ratio = 84.8% (2014) (Recent high 100.8% in 2007) (Recent low 76.5% in 2012)**
  - Unfunded Liability = \$4.55 Billion (2014)
- **Contribution Rate Levels = 22.19% of Salary (FY 2016 Public Employees Noncontributory)**
  - Average Annual Cost = \$9,987 per employee (state/school 2014)
- **Revenue**
  - Investment Rate of Return = 7.52% (2014)
  - Assumed Rate of Return = 7.5% (2014)
  - Percent Funded by Investments 62% vs. Employer Contribution 31% (ten-year average 2005-2014)
- **Fiscal Discipline -- Elements**
  - Fully Fund Recommended Contributions – no contribution holidays
  - Avoid Benefit Enhancements – no benefit increases
  - Well Managed System – (URS Board, URS Office, Actuary, Legislature)
  - Reasonable Administrative Costs
- **Clear Reporting/Accountability**

# Key Questions

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- What is Utah Retirement Systems (URS)?
- What were the 2010 Utah retirement reforms?
- What are the benefits? (*Formulas*)
- When can benefits be taken? (*Eligibility*)
- How is URS funded? (*Revenues*)
- What is the funding status of the retirement systems? (*Funded Ratio*)
- What contributions are needed? (*Contribution Rates*)

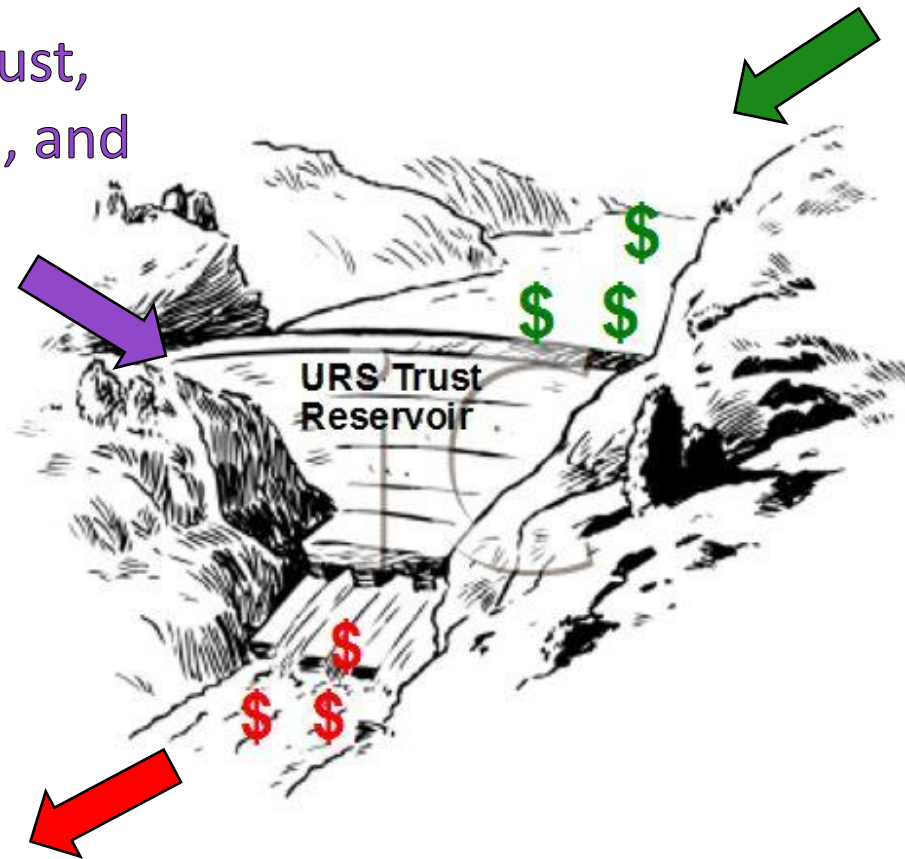
# Utah Retirement Systems

*Like a Reservoir of Shared Funds for Members...*

1. Funds are held in trust, professionally managed, and invested.

2. Employer and employee contributions are deposited each pay period during working years; fund investment returns are also added.

3. Funds are paid out monthly by formula, during retirement years.

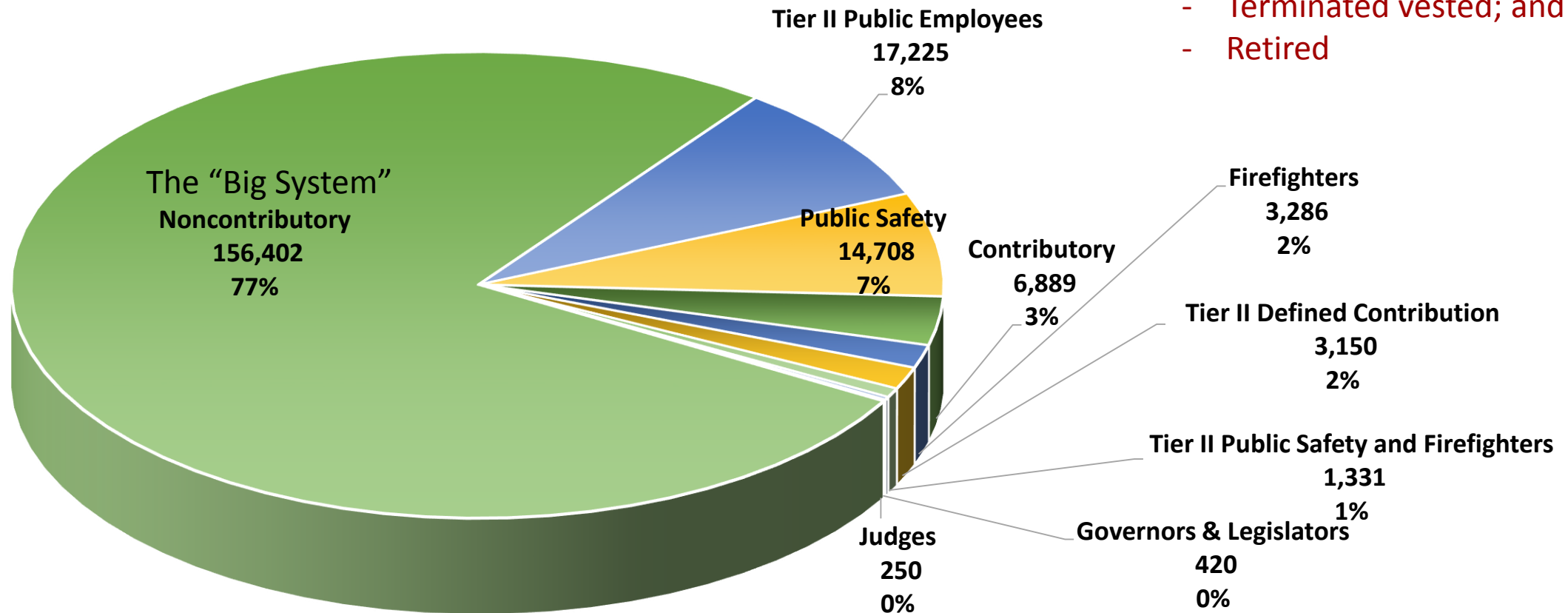


# URS – Membership in Systems

**Total System Membership: 203,661**  
(12/31/2014)

Total Membership Includes:

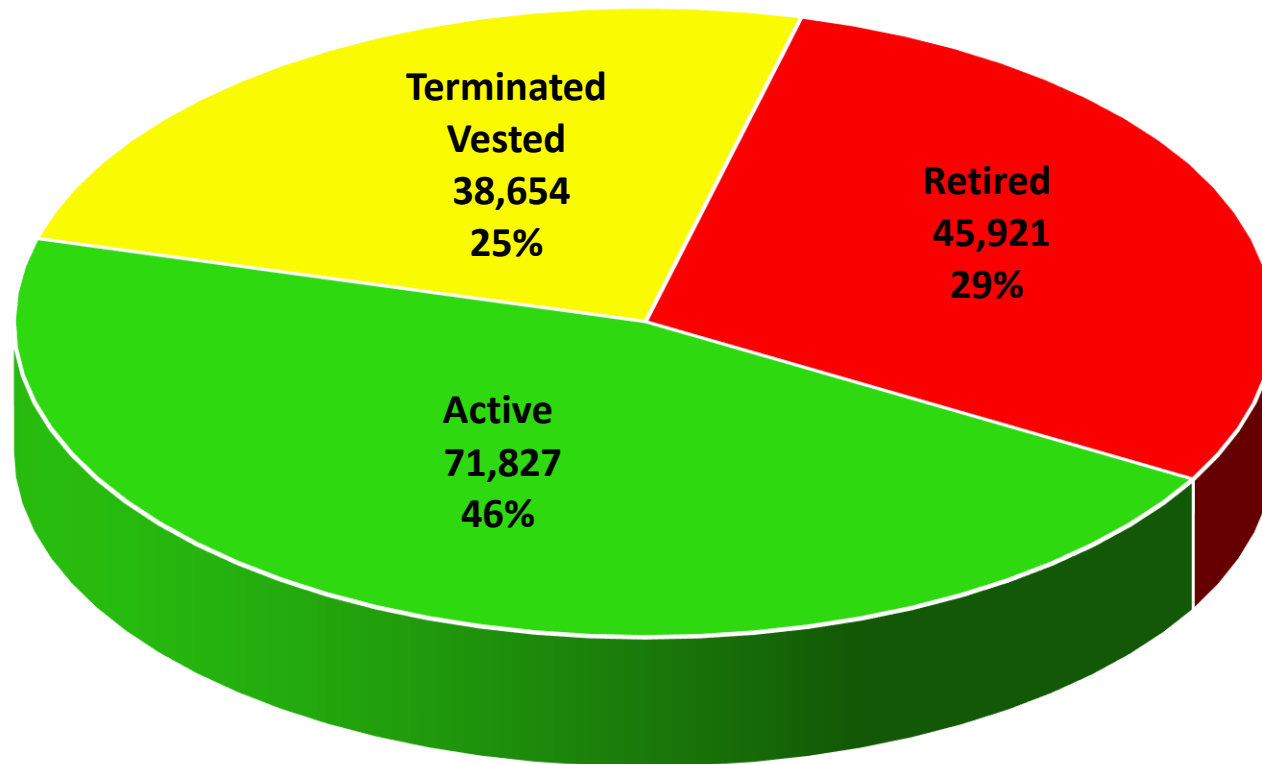
- Active (currently employed);
- Terminated vested; and
- Retired



# URS – Membership in Systems

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**Big System Membership: 156,402**  
(12/31/2014)

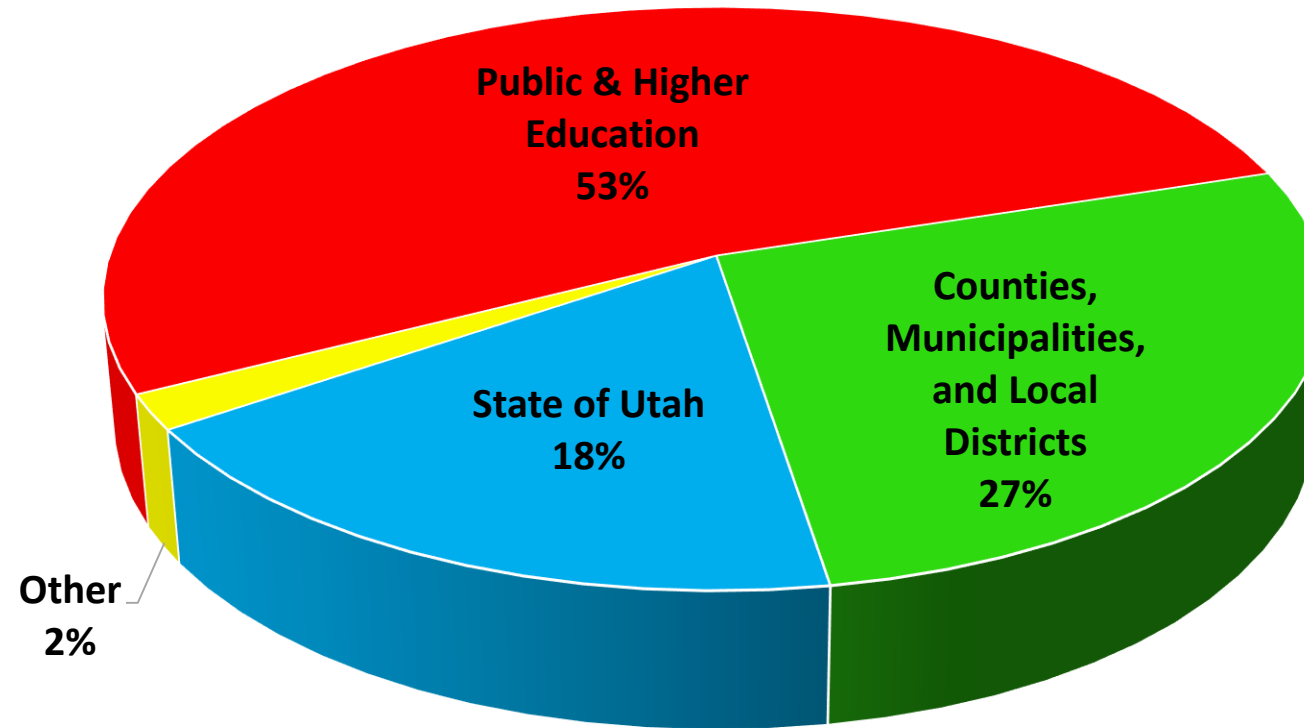


# URS –Membership by Employer Type

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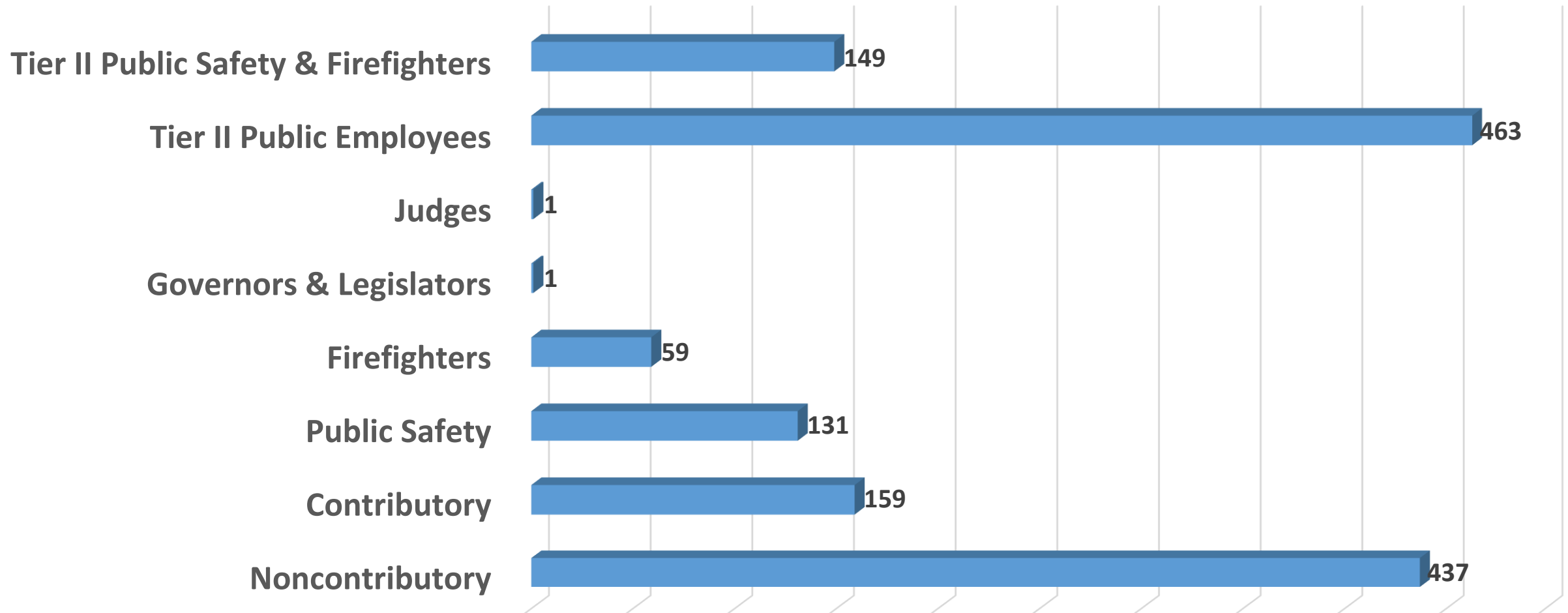
**Active Membership: 103,714**

As of December 31, 2014



# URS – Participating Employers

**Total Participating Employers: 467**





# The Utah State Legislature's Role With Retirement Systems

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## Three Hats



**Policymaker for all  
Retirement Systems**



**Employer of state  
and school  
employees**



**Member of the  
Governor and Legislator  
System or Tier II Public  
Employee Defined  
Contribution System**

# Retirement Definitions

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## Utah Code Section 49-11-102

- **"Actuarial interest rate"** means the interest rate as recommended by the actuary and adopted by the board upon which the funding of system costs and benefits are computed (***assumed rate of return***)(7.5% for FY 2016).
- **"Amortization rate"** means the board-certified percentage of salary required to amortize the unfunded actuarial accrued liability in accordance with policies established by the board upon the advice of the actuary (*e.g., 9.94% for FY 2016 for public employees noncontributory state and school*).
- **"Certified contribution rate"** means the board-certified percentage of salary paid to URS (on behalf of an active member) to maintain the system on a financially and actuarially sound basis (*e.g. 22.19% for FY 2016 for public employees noncontributory state and school*).
- **"Normal cost rate"**:
  - (a) means the percentage of salary that is necessary for a retirement system that is fully funded to maintain its fully funded status; and
  - (b) is determined by the actuary based on the assumed rate of return established by the board.
- **"Unfunded actuarial accrued liability" or "UAAL"**:
  - is determined by the systems' actuary; and
  - means the excess, if any, of the accrued liability of a retirement system over the actuarial value of its assets (***liability minus assets***)(*\$4.55 billion for all systems as of December 31, 2014*).

# 2010 Utah Retirement Reforms – Key Provisions\*

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**Beginning July 1, 2010, for postemployment restrictions and  
July 1, 2011, for new-employee retirement systems**

- **Provide stricter postretirement reemployment restrictions**
  - Prohibit collecting a retirement allowance while receiving any employer retirement contribution or earning additional service credit and
  - One-year employment separation requirement after retirement (certain exceptions may apply).
- **No retirement benefit change for existing public employees (Prospective Only)**
- **For new public employees:**
  - Reduced retirement benefits and
  - Provide set employer contribution amounts (10% of salary for public employees and 12% of salary for public safety and firefighter employees) (a death benefit amount and a Tier I amortization is also added).
- **Use part of the savings to pay unfunded liability for the old retirement systems (Tier I amortization)**

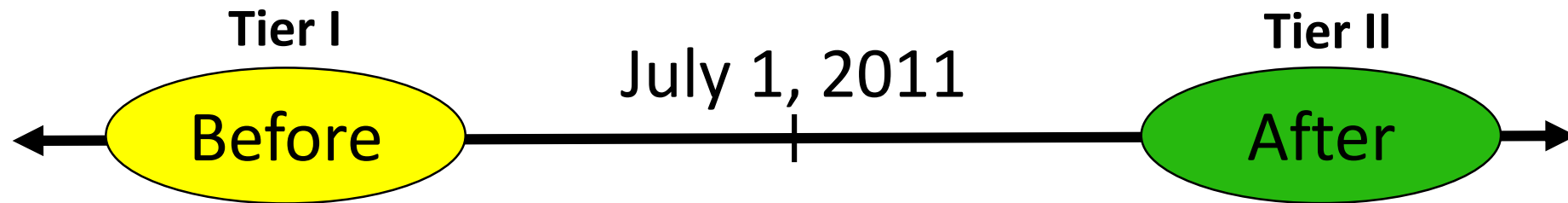
\*2010 General Session: S.B. “New Public Employees’ Tier II Contributory Retirement Act” S.B. 43, “Post-Retirement Employment Amendments”  
Both bills passed March 1, 2010, and became effective on July 1, 2010

# 2010 Utah Retirement Reforms – Key Provisions

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**Tier I or Tier II – based on date of employment**

Employees who initially enter regular full-time employment



- Existing employees are grandfathered under the old retirement systems and plans.
- Judges were excluded from participation in Tier II systems or plans and remain in Tier I.

- New employees may choose between:
  - The Tier II hybrid system; or
  - The Tier II Defined Contribution (DC) plan.
- New governors, legislators, and other full-time elected officials are only eligible for the Tier II DC plan.

# 2010 Utah Retirement Reforms – Key Provisions

**Beginning July 1, 2011**

Four new Tier II systems were created with set employer contributions\*

|                                | Hybrid | Defined Contribution |
|--------------------------------|--------|----------------------|
| Public Employees               | 10%    | 10%                  |
| Public Safety and Firefighters | 12%    | 12%                  |

\*Contribution rates do not include the death benefit contribution or the Tier I amortization rate.

## **Sample FY 2016 Employer Contribution Rates:**

20.02% for Tier II public employees' hybrid (state and school)

(20.02% = 10% + 0.08% death benefit + 9.94% Tier I amortization)

22.19% for Tier I public employees' noncontributory (state and school)

30.54% for Tier II public safety (state)

(30.54% = 12% + 0.08% death benefit + 18.46% Tier I amortization)

41.35% for Tier I public safety noncontributory (state)

# URS – Systems

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## Participant Systems

### **Tier I Systems** (Six Participant Systems)

- Public Employees Noncontributory
- Public Employees Contributory
- Public Safety
- Firefighters
- Judges
- Governors and Legislators

### **Tier II Systems** (Two Participant Systems)

- New Public Employees Tier II Contributory
  - ☐ Hybrid
  - ☐ Defined Contribution (includes Governors and Legislators)
- New Public Safety and Firefighters Tier II Contributory
  - ☐ Hybrid
  - ☐ Defined Contribution

(Judges are not included in Tier II)

# URS – Tier I Systems

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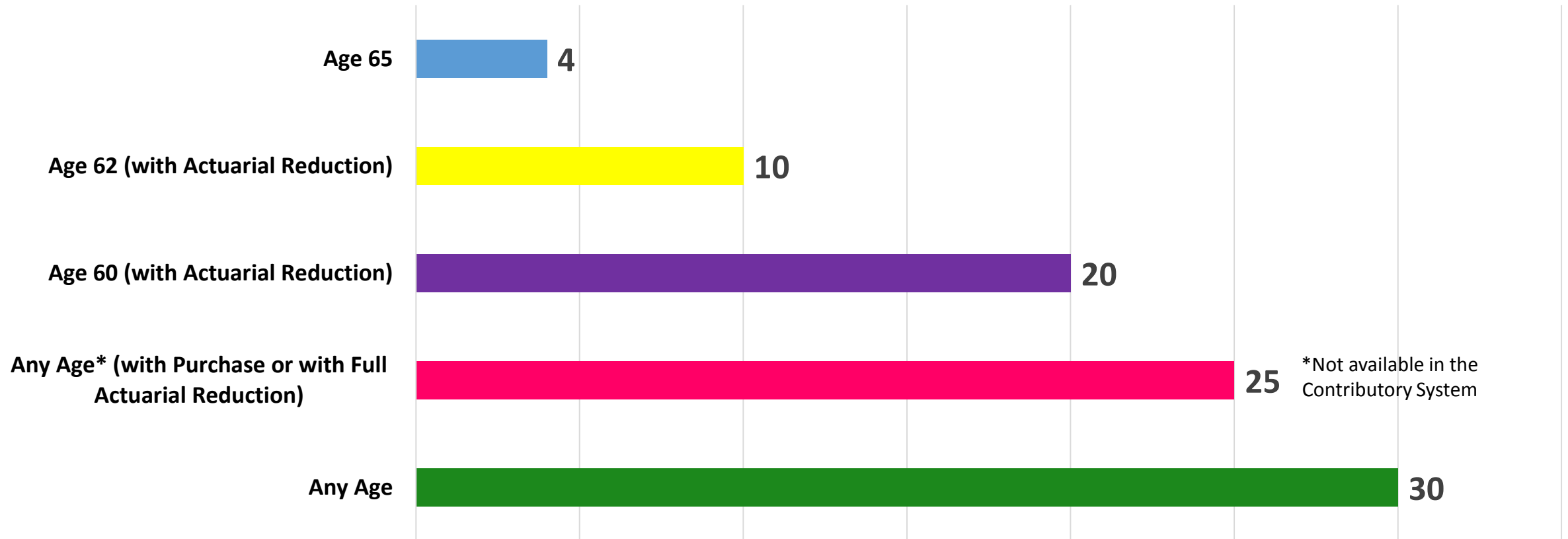
## Six Systems With Divisions

- Public Employees Noncontributory
- Public Employees Contributory
- Public Safety (divisions also include a 2.5% or a 4% COLA)
  - Noncontributory – Division A (with Social Security)
  - Noncontributory – Division B (without Social Security)
  - Contributory – Division A (with Social Security)
  - Contributory – Division B (without Social Security)
- Firefighters Contributory
  - Division A (with Social Security)
  - Division B (without Social Security)
- Judges
  - Noncontributory
  - Contributory
- Governors and Legislators

Similar divisions exist for Tier II systems, but only for purposes of calculating the Tier I amortization rate for each existing risk pool

# URS – Tier I Eligibility

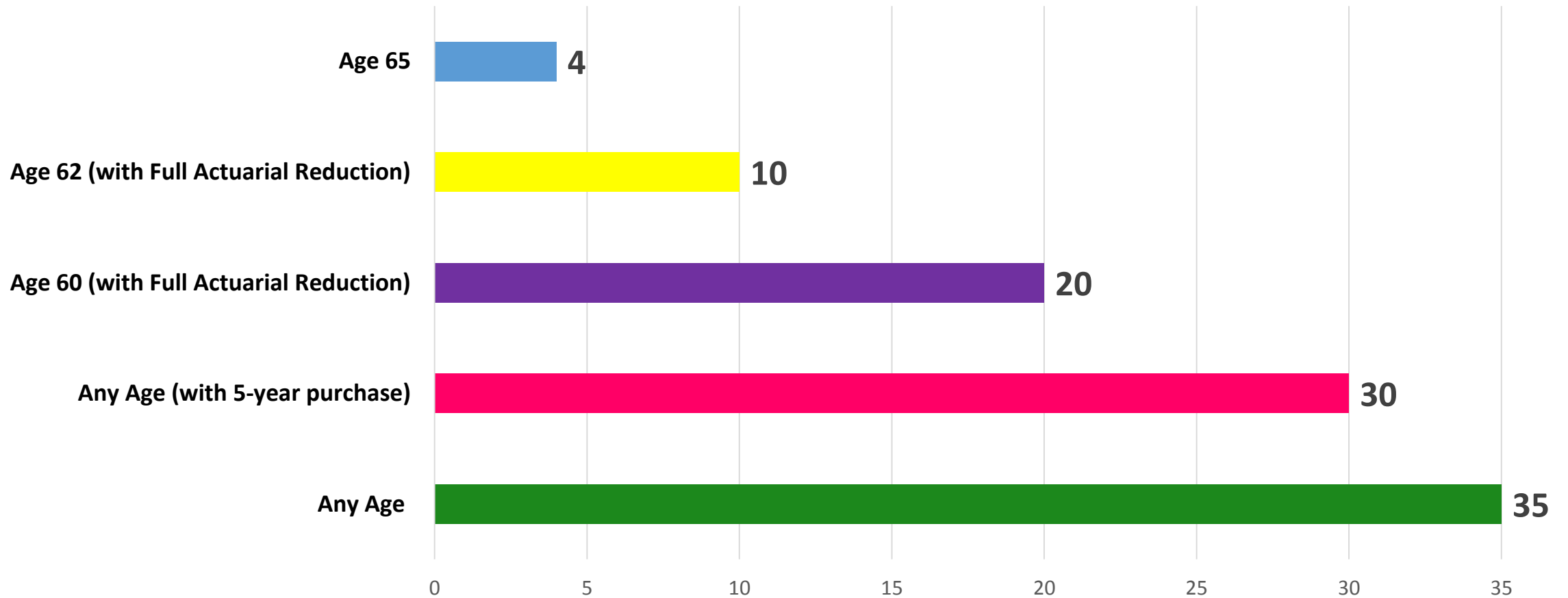
## Tier I Public Employees' Noncontributory





# URS – Tier II Eligibility

## Tier II New Public Employees' Contributory Hybrid



# URS – Tier I Benefit Formulas

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## Defined Benefit – Public Employees Noncontributory Retirement Three Allowance Components

- Years of Service (years of service credit)
- Multiplier (e.g. 2%\* per year of service)
- Final Average Salary (average of highest three\*\* years)

\*1.5% for Tier II Hybrid  
\*\*Five years for Tier II Hybrid

# Employees' Tier I Noncontributory Formula

**Years of Service × 2% × Final Average Salary (FAS)**

FAS = Average of highest 3 years

## Example

Years of Service × 2% × Final Average Salary

30

× 2% ×

Year 1 \$45,779

Year 2 \$47,684

+ Year 3 \$49,590

= \$143,053

\$143,053 ÷ 3 = \$47,684

$30 \times 2\% \times \$47,684$

**= \$28,611**

# URS – Tier II Allowance Formula

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Tier II Public Employees' Contributory Hybrid include:

1. A defined benefit as shown in the formula below; and
2. A defined contribution from the employer into a 401(k), if less than 10% of salary is needed to fund the defined benefit (for FY '16 the 401(k) DC is 1.78%)

Defined Benefit Formula

**Years of Service × 1.5% × Final Average Salary (FAS)**

FAS = Average of highest 5 years

# URS – Tier II Allowance Formula Example

**Years of Service × 1.5% × Final Average Salary (FAS)**

FAS = Average of highest 5 years

## Example

Years of Service × 1.5% × Final Average Salary

35

×

1.5%

×

Year 1 \$44,869

Year 2 \$45,779

Year 3 \$47,684

Year 4 \$49,590

Year 5 \$50,500

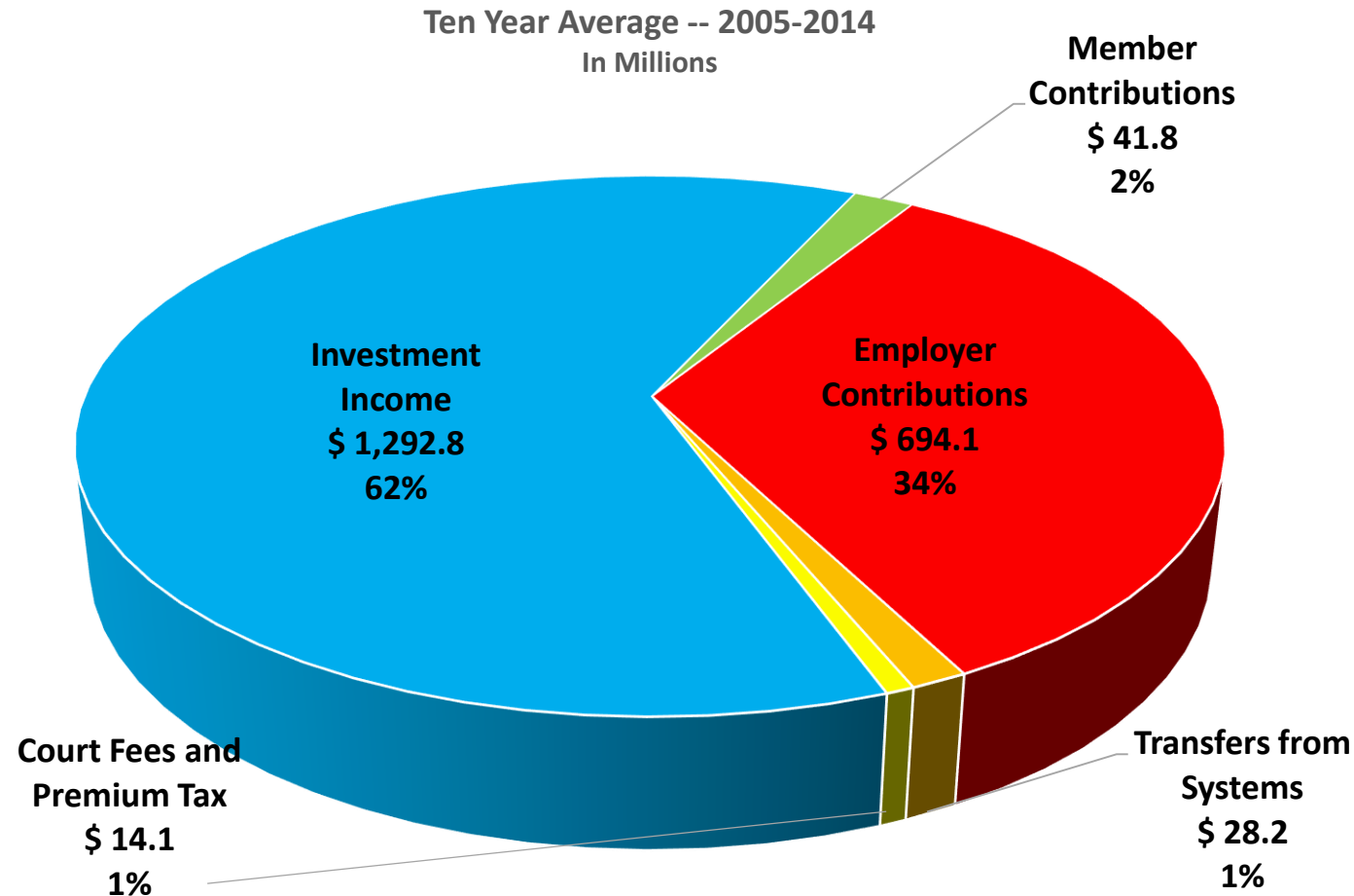
= \$238,422

$\$238,422 \div 5 = \$47,684$

$35 \times 1.5\% \times \$47,684$   
 $= \$25,034$

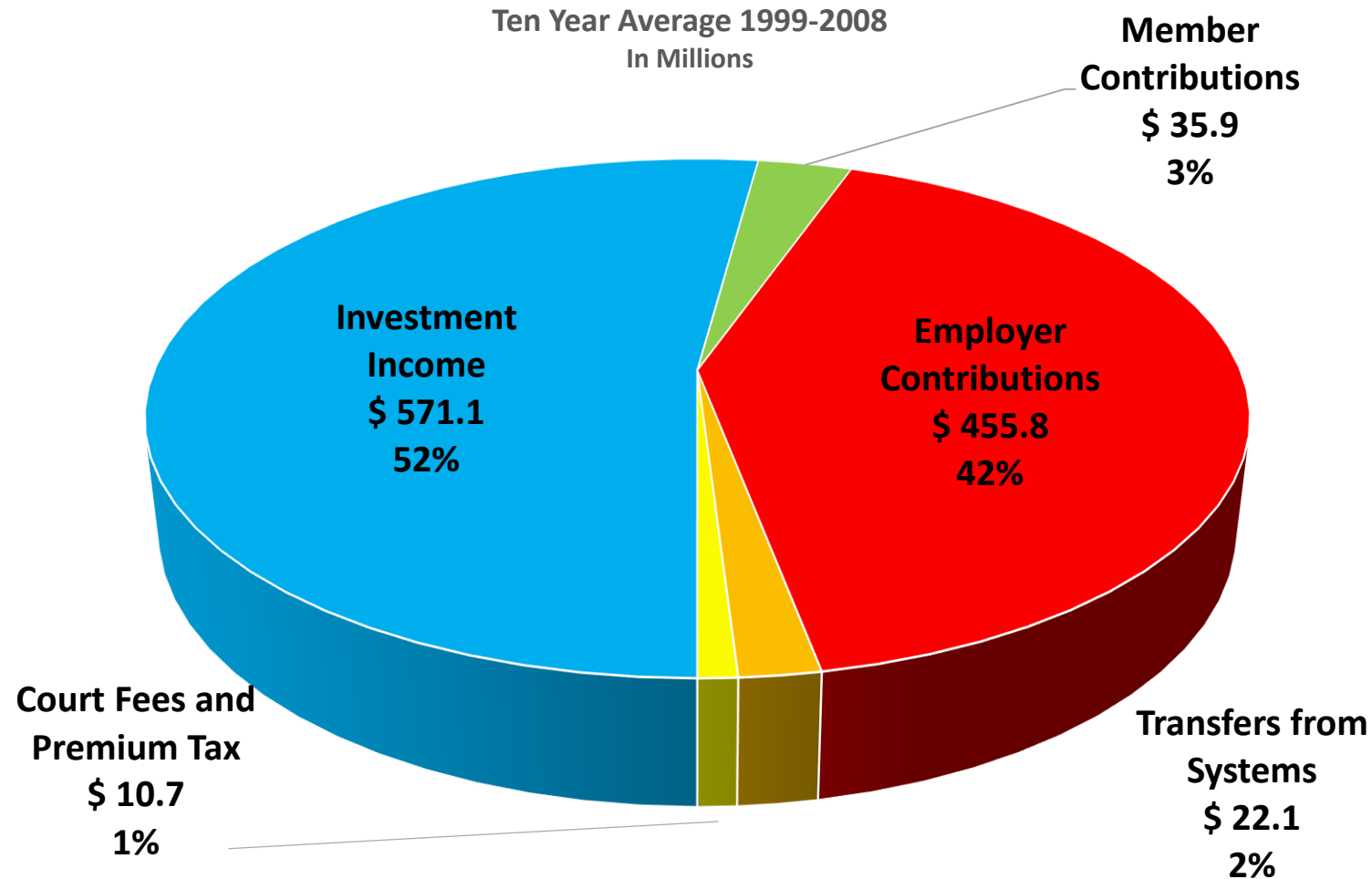
# Utah Retirement Systems Revenue Sources

**All Systems – Average Annual Total = \$2,071.1 Million**



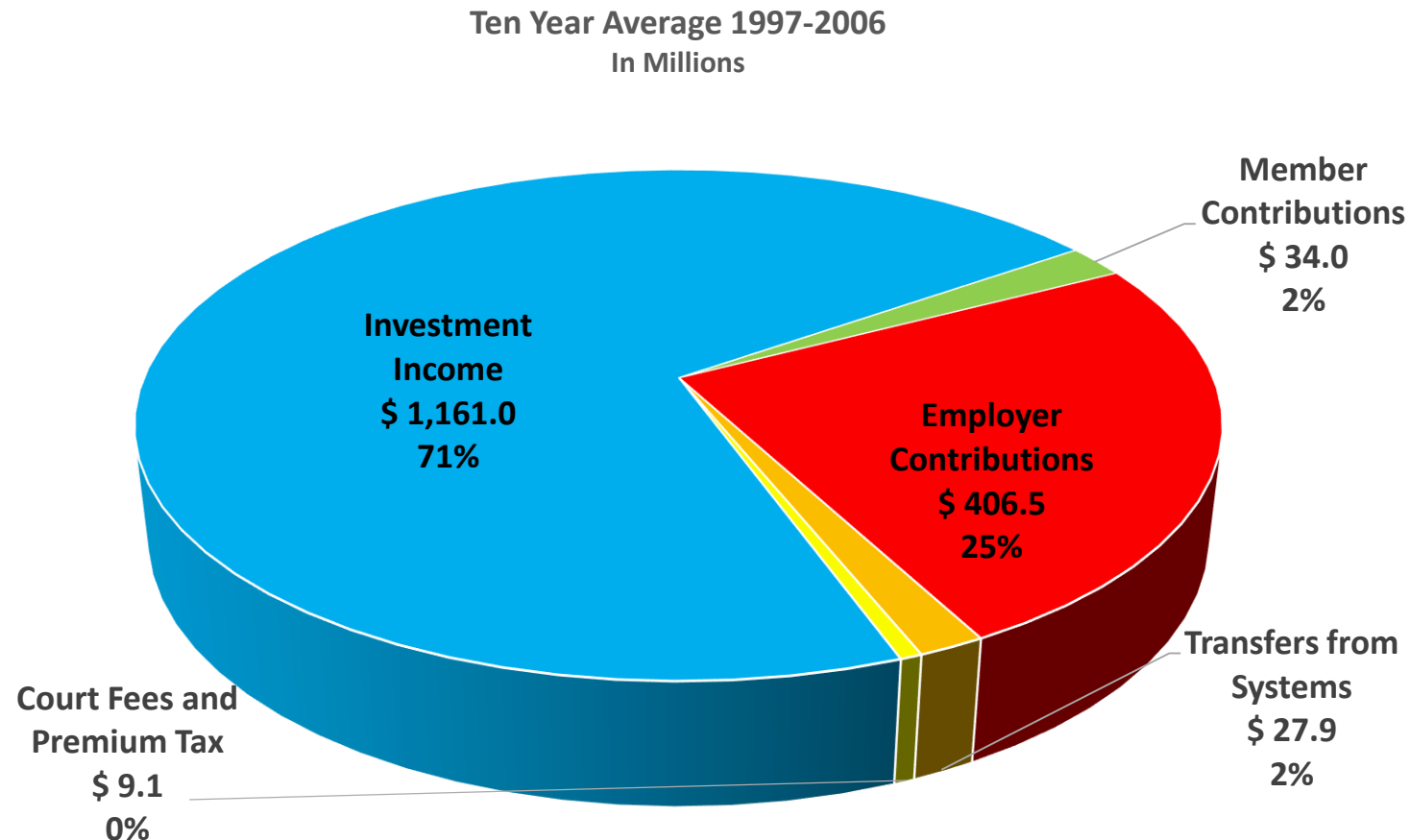
# Utah Retirement Systems Revenue Sources

**All Six Systems – Average Annual Total = \$1,095.7 Million**



# Utah State Retirement Systems Revenue Sources

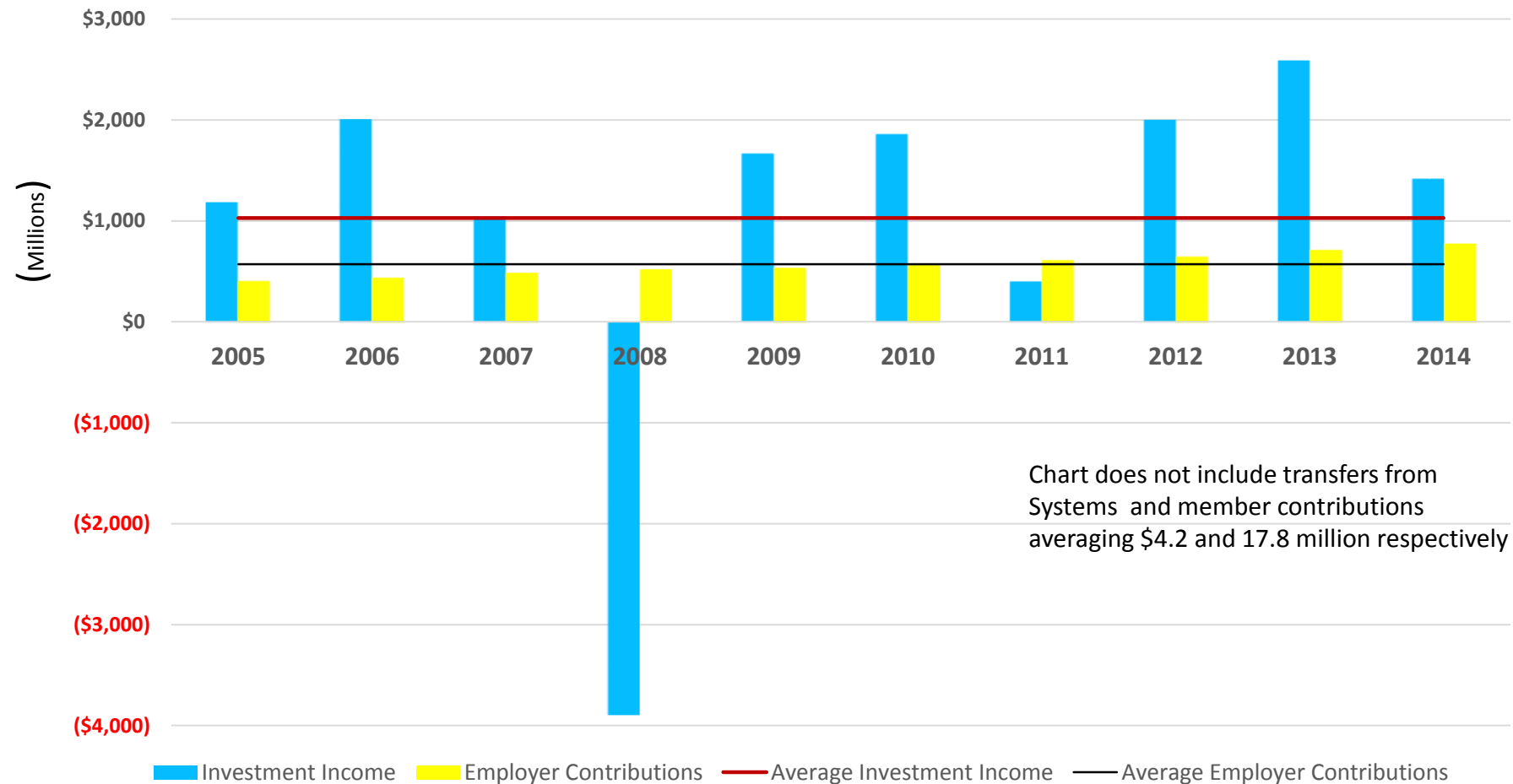
**All Six Systems – Average Annual Total = \$1,638.4 Million**





# Utah Retirement Systems

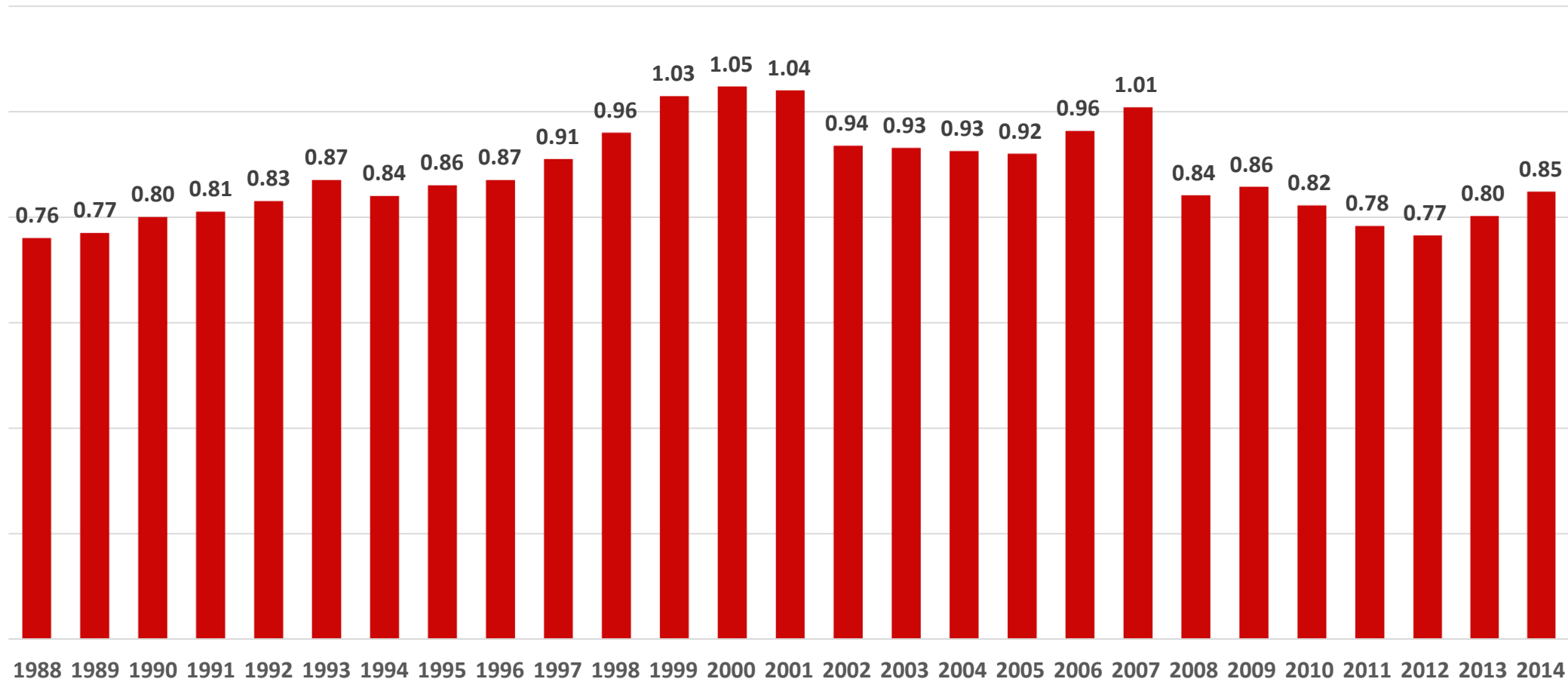
## Noncontributory - Revenue Sources 2005 - 2014



# URS – Funded Ratio History

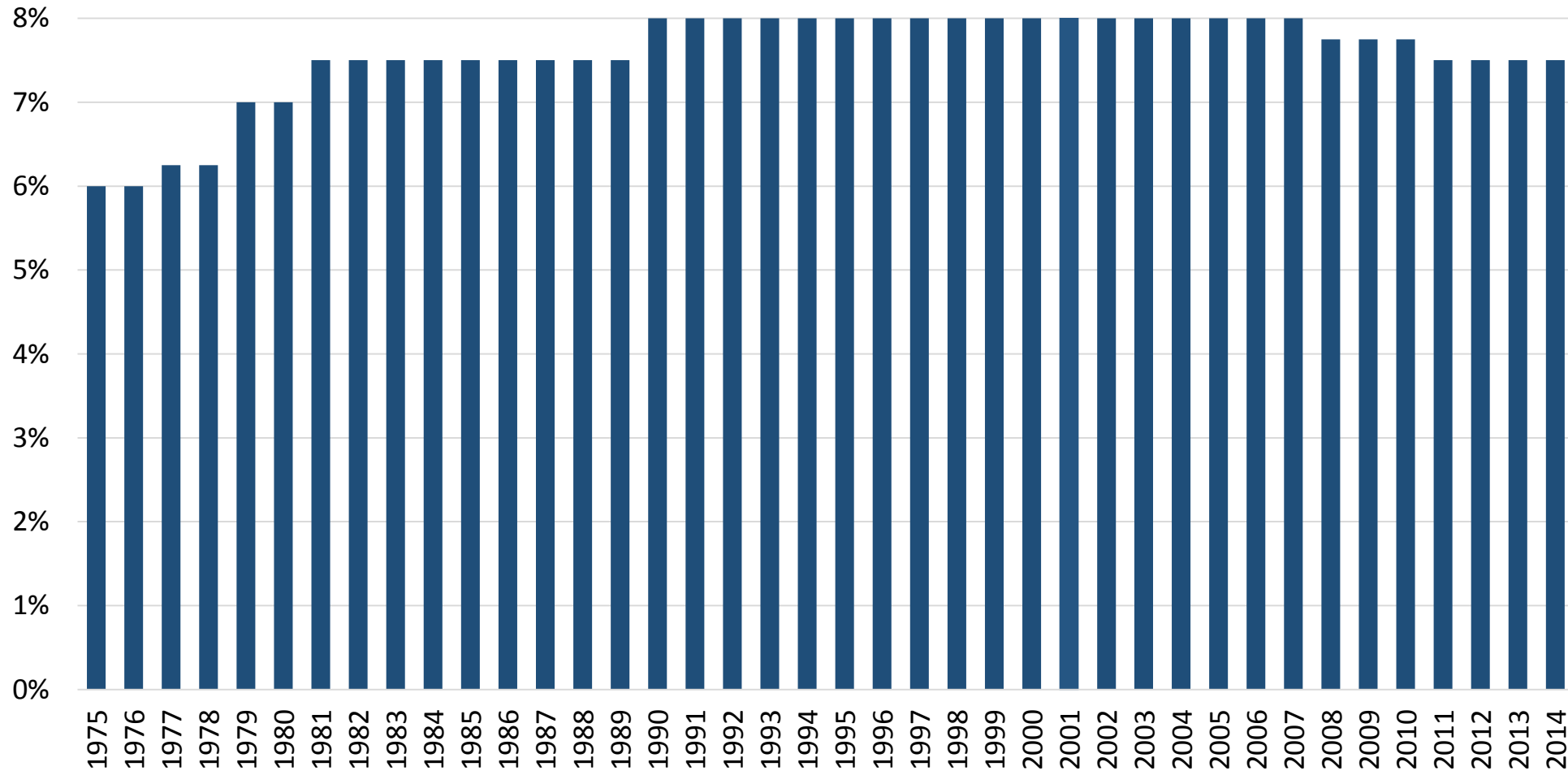
## All Systems

Funded Ratio = value of assets/accrued liability



# Historic URS Actuarial Interest Rate

## Assumed Rate of Return on Investments

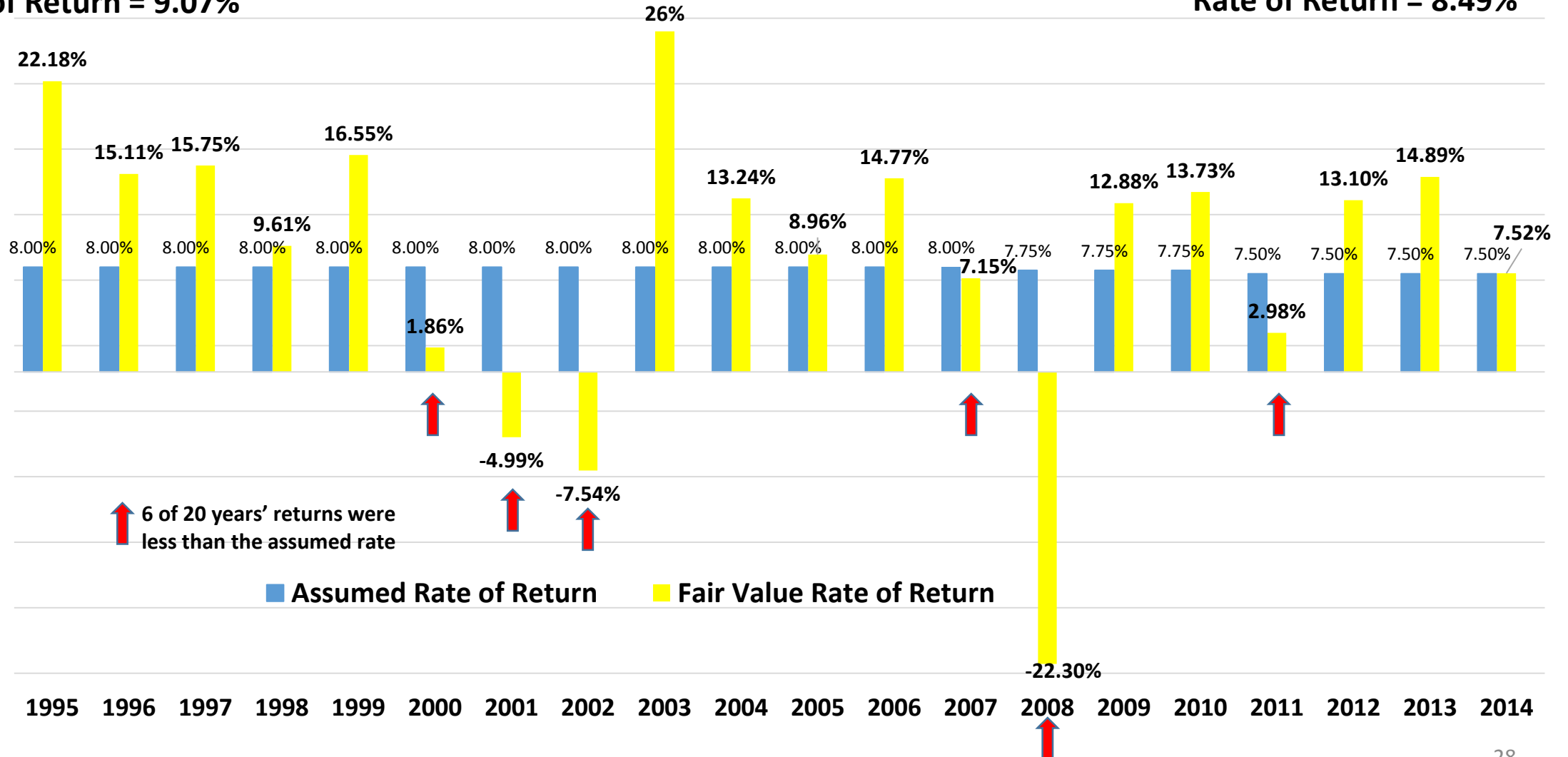


# Historic URS Rate of Return on Investments

20-Year Average Fair Value  
Rate of Return = 9.07%

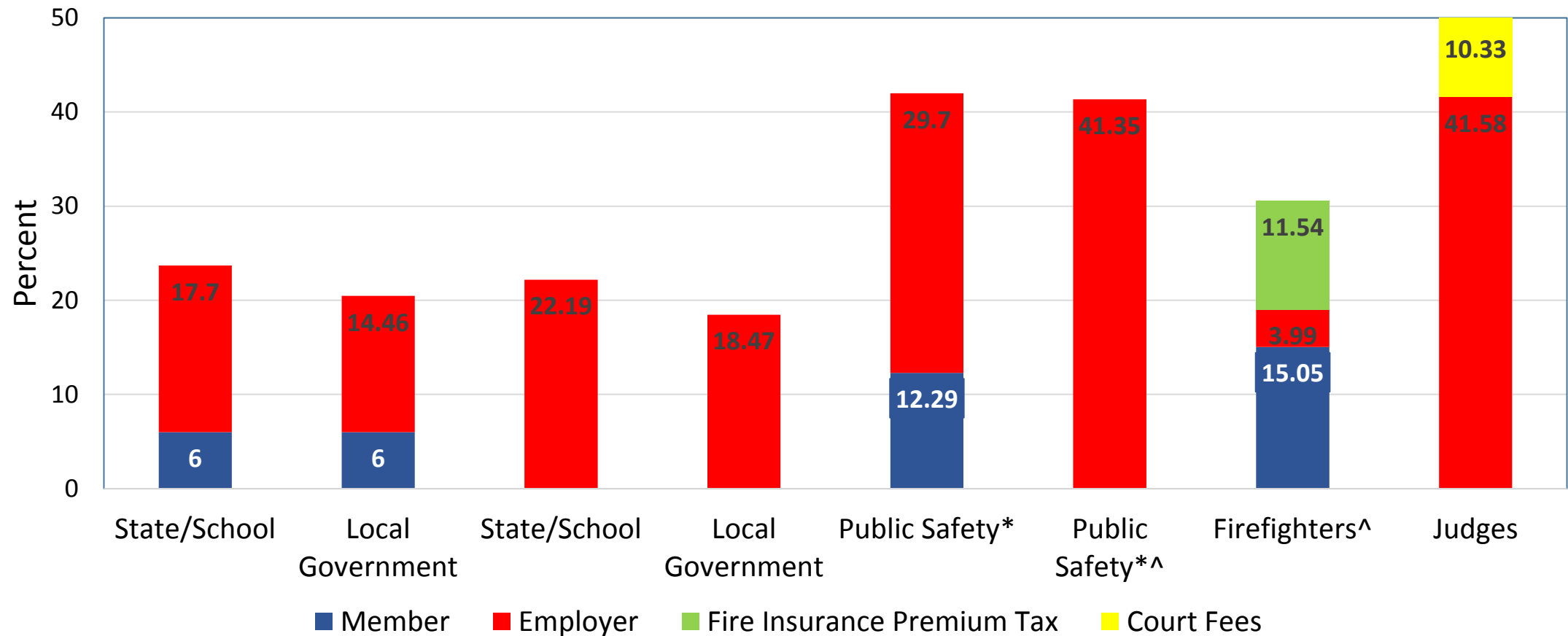
## 20 Year History – 1995-2014

Time Weighted 20-Year  
Rate of Return = 8.49%



# URS – Tier I Contribution Rates

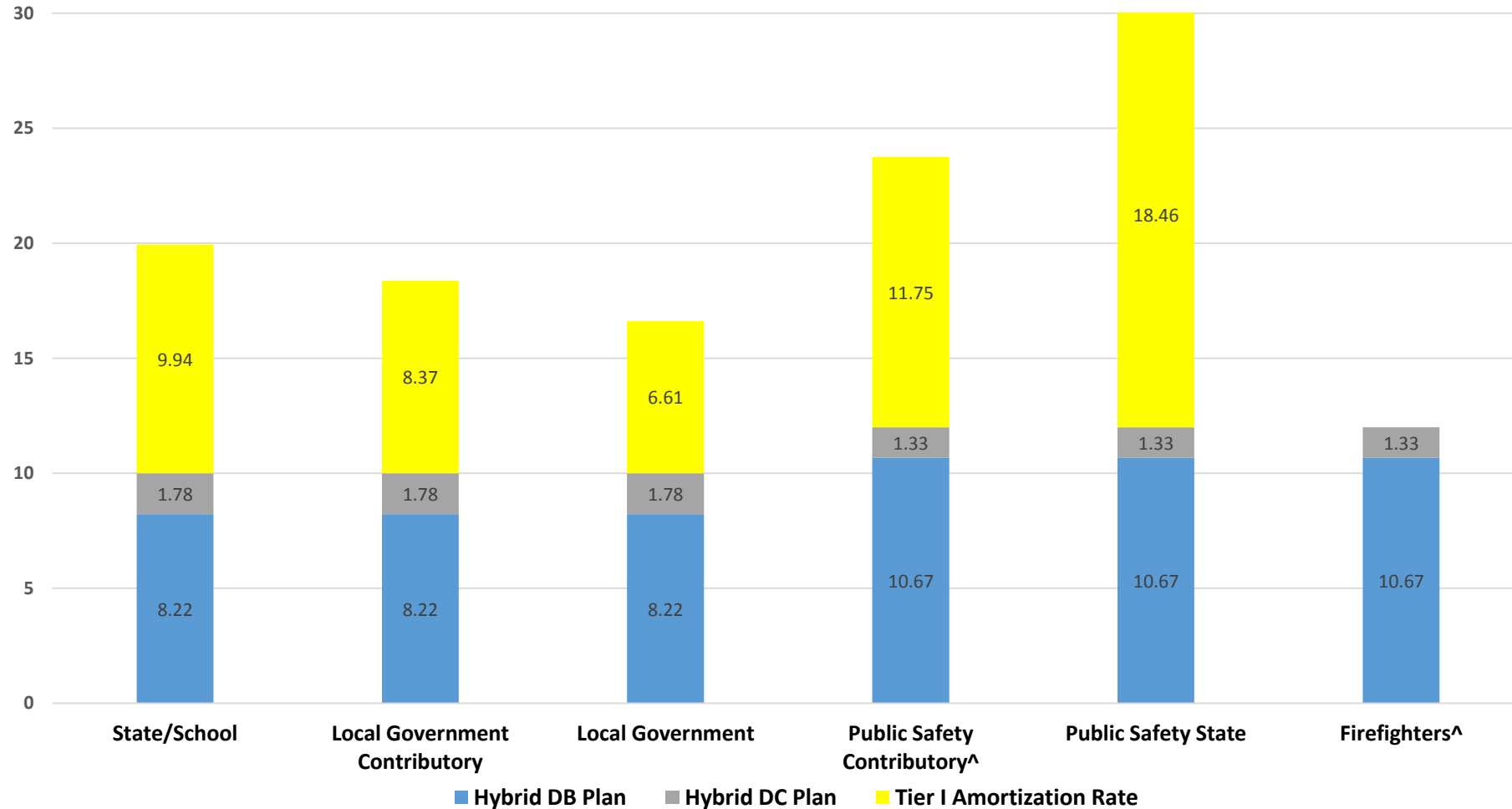
## FY 2016 – Percentage of Salary



\*State Employees with 4% COLA ^ State Employees with Social Security (Division A) only  
Source: Utah Retirement Systems Final Retirement Contribution Rates for FY July 1, 2015 – June 30 2016.

# URS – Tier II Contribution Rates\*

## FY 2016 – Percentage of Salary



\*Death Benefit rate not included (0.08% for public employees and 0.08% for public safety and firefighters)

^Employees with Social security (Division A) with 2.5% COLA

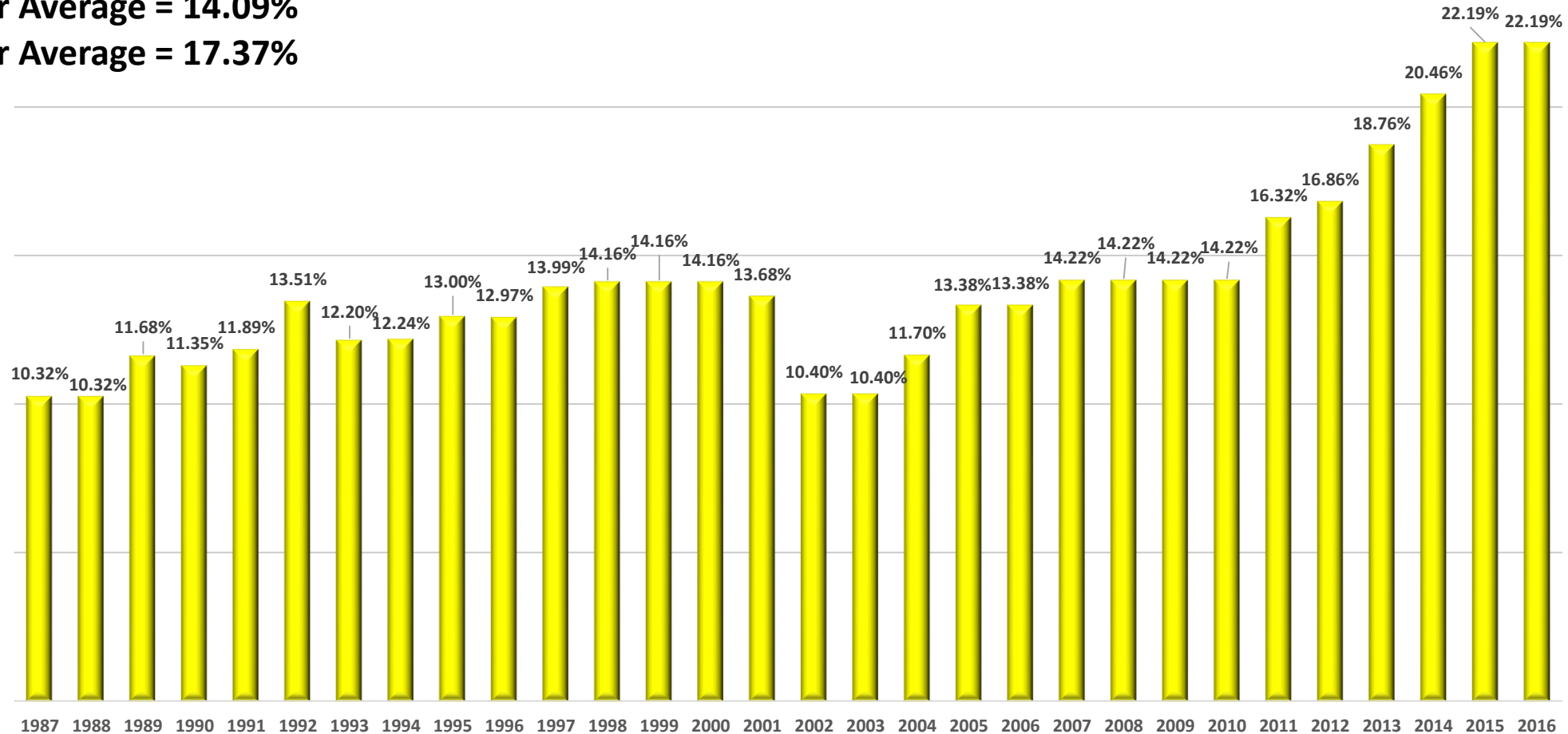
Source: Utah Retirement Systems Final Retirement Contribution Rates for FY July 1, 2015 – June 30 2016.

# Public Employees' Noncontributory Contribution\* Rate History

## State and School - Percentage of Salary

30 Year Average = 14.09%

10 Year Average = 17.37%

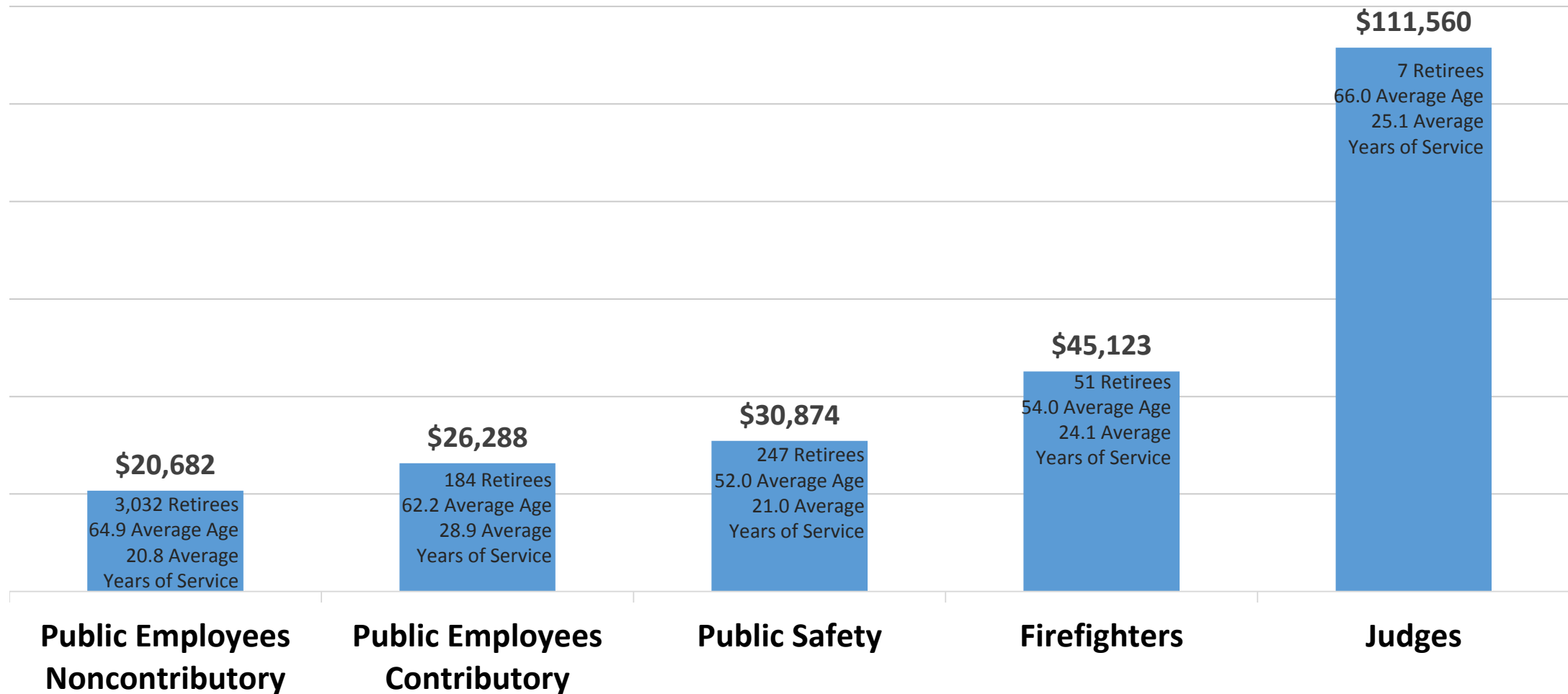


\*Does not include the required 1.5% 401(k) contribution

Source: Utah Retirement System

# Average Annual Benefit (Retirement Allowance)

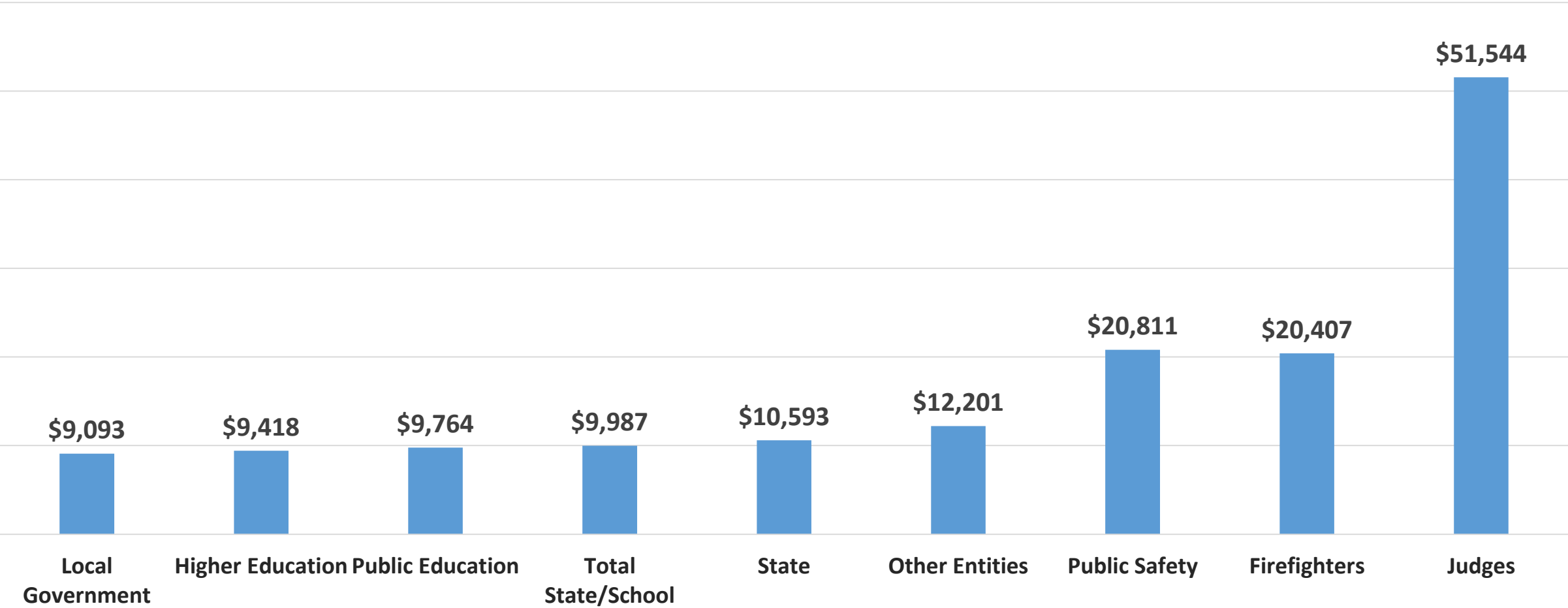
## 2014 Retirees





# Average Annual Retirement Contribution Per Employee

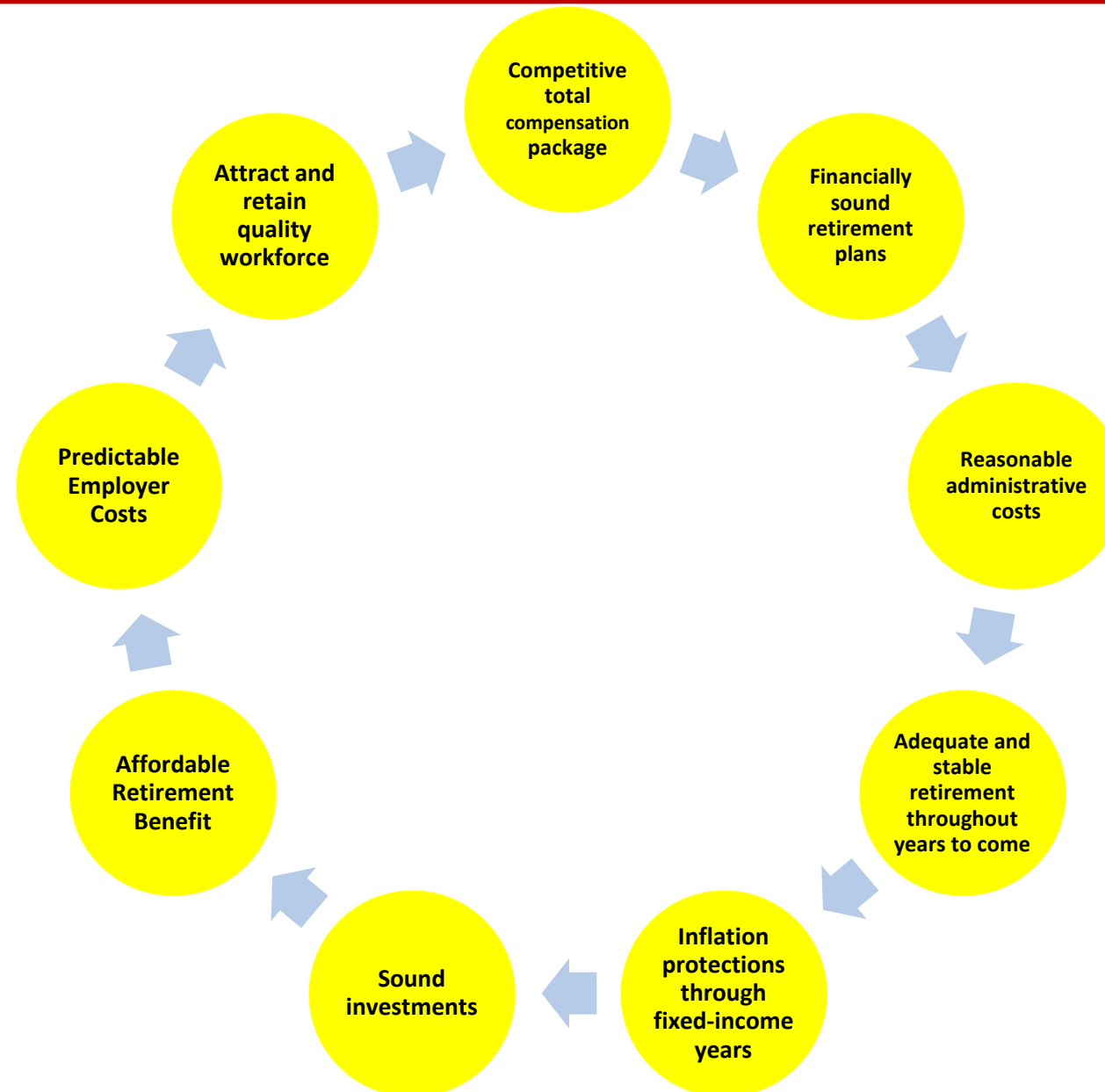
Calendar Year Ending December 31, 2014



Source: Utah Retirement Systems, June 2, 2015

# Potential Success Criteria Options

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# Questions?

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